

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

BAC 3664 – ACCOUNTING THEORY

(All sections / Groups)

18 MARCH 2021
9.00 am – 12.00 pm
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **4** pages (excluding the cover page), with **4** Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) According to Deegan (2014), p. 80:

“Researchers who embrace capture theory would typically argue that, although regulation might be introduced with the aim of protecting the “public interest”, this laudable aim will not ultimately be achieved because, in the process of introducing regulation, the organizations that are subject to the regulation will ultimately come to control the regulators.”

Required:

(i) Describe the TWO (2) assumptions of regulatory capture theory. **(6 marks)**

(ii) Explain how a regulated entity or industry is able to capture a regulatory body. **(4 marks)**

(iii) Explain the application of capture theory in the accounting context. **(6 marks)**

(b) ‘Market for managers’ and ‘market for corporate takeovers’ are among the arguments used to support the free market perspective for reducing or eliminating accounting regulation.

Required:

(i) Explain why the managerial labour market motivates the managers to provide information voluntarily to outside parties. **(4 marks)**

(ii) Describe how market for corporate takeovers encourages organisations to make accounting disclosures even in the absence of regulation. **(5 marks)**

(Total: 25 marks)

Continued...

QUESTION 2

- (a) There were claims that the current accounting standards contain too many unnecessary, complex and burdensome disclosure requirements. Some argued that the disclosure overload problem exists and recommended that disclosures in standards be reduced and streamlined.

Required:

- (i) Explain ‘accounting standards overload’.
(2 marks)
- (ii) Describe why might accounting standards overload occurs.
(3 marks)
- (iii) Explain THREE (3) situations associated to accounting standards overload.
(6 marks)
- (iv) Explain TWO (2) ways to overcome accounting standards overload.
(2 marks)

- (b) According to Wilson & Wong (2010), p. 448:

“Actions taken to opportunistically manipulate accounting profits are often referred to as ‘earnings management’ strategies, and these strategies involve ‘deliberate intervention in the reporting process to bias earnings away from the level which would be reported given a perfectly “neutral” application of generally accepted accounting principles’.

Required:

Explain FOUR (4) common techniques used to manage earnings.

(12 marks)

(Total: 25 marks)

Continued...

QUESTION 3

- (a) One of the major capital market research publications in accounting, a research by Ball and Brown (1968) had explained the earnings response coefficient (ERC) as the relationship between unexpected earnings and abnormal return impact to the capital market.

Required:

Explain their findings on ERC and capital market.

(10 marks)

- (b) Capital Market Research noted that, other than corporate announcement, there are other factors that will affect stock price performance. In March 2020, Malaysia implemented a Movement Control Order (MCO) due to COVID-19 pandemic. Stock price performance of FTSE Bursa Malaysia for the year 2020 showed a decreasing trend for the 1st quarter (Jan, February and March). Nevertheless, the stock price performance started to improve with volatility during 2nd quarter (April, May and June) and 3rd quarter (July, August and September) of the year.

Required:

- (i) According to the statements above, discuss the factors that might had influenced the stock price performance of FTSE Bursa Malaysia for the year 2020.

(5 marks)

- (ii) According to the trend described above, it can be concluded that, COVID-19 pandemic has provided complete information to the capital market for the short term. Support this statement by referring to market efficiency hypothesis.

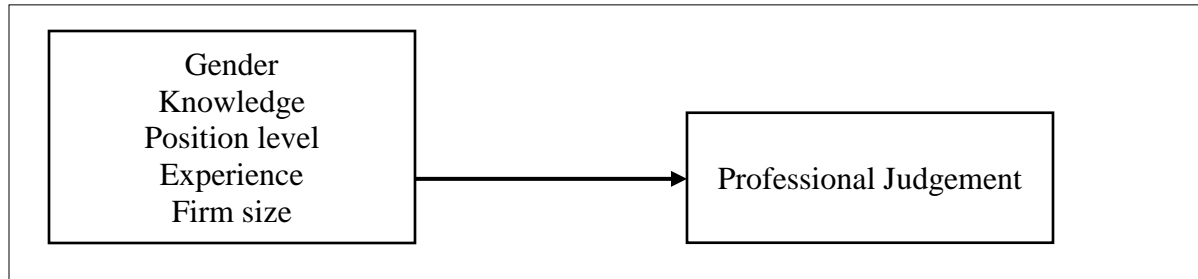
(10 marks)

(Total: 25 marks)

Continued...

QUESTION 4

- (a) The diagram represents an example of behavioural accounting research (BAR). The research examines the issue of auditor's professional judgement when facing complexities of audit assignment.



Source: Abdul Halim et.al (2018).

Required:

- (i) Define behavioural accounting research (BAR).

(5 marks)

- (ii) Based on the diagram above, explain the relationship between imperfect cues and the event of research using Brunswick Lens Model. Your explanation should include any significant user of the research.

(10 marks)

- (b) According to Deegan (2014), p.491:

“Manipulating the product to increase profitability has been tobacco companies’ strategy for many years. The tobacco companies had a perpetrated a half-century fraud on smokers, intentionally misleading the public with their stated position that smoking was a safe activity and has no adverse effects on health. In fact, the companies knew the opposite effects of the case”.

Required:

- (i) Discuss the limitation of traditional financial reporting in capturing the social and environmental activities.

(5 marks)

- (ii) Suggest a new financial reporting approach to overcome the deficiency of traditional financial reporting and to capture the social and environmental impacts of organisational activities. Justify your suggestion.

(5 marks)

(Total: 25 marks)

End of Paper.